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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 003016

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E.O. 12958: DECL: 05/07/2013

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SUBJECT: ERDOGAN ADVISOR BENEFITS FROM GOT GENEROSITY TO  
HAZELNUT FARMERS

(U) Classified by DCM Robert Deutsch. Reason: 1.5 (b,d).

1. (C) Summary: Unable to fulfill his campaign pledge to raise support prices for Turkey's hazelnut farmers, Prime Minister Erdogan instead announced in February that the government would provide additional direct income support to this politically-powerful group. One of the beneficiaries of this decision was Erdogan confidant Cuneyd Zapsu, whose company is one of Turkey's largest exporters of hazelnuts. There is much speculation, although no proof, that Zapsu in fact was the force behind Erdogan's initial campaign pledge and subsequent decision to increase direct payments to hazelnut farmers. End Summary.

2. (SBU) Turkey is the world's leading producer of hazelnuts, accounting for 70 percent of world supply and 80 percent of global exports. Hazelnut production is one of the most important economic sector in the Black Sea region. There are about 400,000 hazelnut growers in Turkey, many of which have small (10-15 hectares) land holdings. As a result, the hazelnut lobby wields considerable political clout domestically.

3. (SBU) Over the years, government support programs, mostly in the form of support prices, have led to overproduction and the accumulation of large hazelnut inventories. To reduce this perennial glut, previous Turkish governments tried to encourage farmers to shift into other commodities. Unfortunately, these programs were inadequately funded and met with limited success. In fact, continued high support prices attracted new producers into the market.

4. (SBU) Since 2000, the IMF has pressed the GOT to reduce government spending and overproduction in the agricultural sector, while the World Bank has provided support for a direct payment program for Turkish farmers that is not related to production. As a result, support prices gradually dropped. Just prior to last Fall's elections, the Ecevit government announced a support price of TL 1.615 million TL per kilo, significantly lower than in previous years. During a campaign stop in the Black Sea region, AK leader Tayyip Erdogan promised to provide additional support for hazelnut producers. (Note: Then-economic advisor Ali Babacan admitted to us then that this had been a "mistake.")

5. (SBU) After the election, however, the AK Government was restricted by IMF commitments and therefore was unable to increase hazelnut support prices. Instead, the government announced in February 2003 a TL 25 million per decare (one-tenth of a hectare) increase in direct income payments exclusively for hazelnut producers. This is on top of the TL 13 million per decare all farmers receive under the World Bank's direct payment program. As a result, when combined with the TL 1.615/kilo support price, hazelnut producers will receive approximately TL 2 million per kilo.

6. (C) One of the beneficiaries of this government largess is Cuneyd Zapsu, a top advisor to PM Erdogan. Zapsu is founder and partner of Balsu, one of the world's leading hazelnut processing companies and supplier of 18 percent of Turkey's annual hazelnut exports (according to the website of Azizler Holding, Balsu's parent company). Industry sources tell us that Zapsu was an even bigger player 4-5 years ago, at which time Balsu had an office in the United States promoting hazelnut exports. An Istanbul banker who lives near Zapsu told us that Zapsu and his brother, Aziz (who runs the family holding's other main business, supermarket chain BIM) are worth billions of dollars.

17. (C) There is much speculation that Zapsu was the force behind Erdogan's initial pledge to increase support for hazelnuts, as well as the AK government's subsequent decision to increase direct payments. We have not been able to confirm this, though Zapsu clearly has both strong ties to Erdogan and a strong interest in support for the hazelnut industry.

18. (C) Comment: The situation in the hazelnut sector is not unique to Turkish agriculture and politics, nor is GOT support for it unique to AK. High support prices and protection -- based on political pressures and ties -- are generally the rule in Turkish agriculture, as sugar, tobacco, wheat and oilseeds all benefit from government prices and/or protection. Nonetheless, these policies hurt the Turkish Treasury, Turkish consumers, and the competitiveness of Turkish industry. AK's approach to the hazelnut industry suggests political ties and protection continue to overwhelm any desire for efficiency and market economics.  
PEARSON